Surveys of Consumer Attitudes

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CONSUMER EVALUATIONS OF CREDIT TRANSACTIONS

by

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From 1946 until 1970, the Survey Research Center, with the support of the Federal Reserve Board, conducted an annual Survey of Consumer Finances (SCF). These surveys were updated and enlarged with the 1977 Survey of Consumer Credit (SCC), jointly funded by the Board, the FDIC and the Comptroller of the Currency. The 1977 Survey of Consumer Finances adds to the rich source of cross-sectional data on the distribution of assets, debts, durable goods and financial transactions among American families. This national survey consisted of 2,563 respondents personally interviewed during August 1977.

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Federal consumer credit protection legislation has grown substantially in recent years. Current consumer credit legislation includes the Truth-in-Lending provision (1969), the Fair Credit Billing Act (1973), and the Equal Credit Opportunity Act (1974), among others. Population sample surveys can serve as guidelines for the development of consumer policy as well as a means to assess the effectiveness of these policy initiatives. This paper presents an initial overview of how American households evaluate their credit transactions. Data are drawn from a nationwide representative sample of 2,563 households conducted in August-September 1977 by the Survey Research Center at The University of Michigan. Whenever possible, comparable data from earlier surveys of consumer finances conducted by the Survey Research Center were used to assess potential change.

The 1977 survey revealed that half of all American households had outstanding installment debt (Table 1). Interestingly, the proportion of families with installment debt was unchanged from the 1960s, although the average amount of debt outstanding has increased relative to income since that time. Although the proportion of families who have outstanding debt has remained rather constant, negative attitudes toward buying things on the installment plan have decreased substantially since 1967. In 1977, 51 percent felt using the installment plan was generally a good idea, up

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from 48 percent in 1967 -- an insignificant change (Table 2). In contrast, 15 percent felt that the use of the installment plan was a bad idea in 1977, compared to more than 40 percent who held this view in 1967. This general decline in negative predispositions toward the use of installment credit was mirrored by increasingly favorable attitudes toward the use of credit for specific types of purchases. In 1977, more than 80 percent of all respondents felt that installment debt was all right to use to finance the purchase of a car, for educational expenses, or to cover expenses due to illness (Table 3 and Chart 3). Somewhat more than half of all respondents now favorably view the use of installment debt for furniture purchases, while just less than half found it all right to use installment debt for bill consolidation or to cover living expenses when income is cut. Just one-fourth of all consumers, on average, favor the use of installment credit credit for purchases of hobby items or to cover the expense of a vacation. Use of installment credit to finance the purchase of a fur coat or jewelry found as little acceptance in 1977 (6%) as in 1967 or 1970 (4%).

Loan Satisfaction

This widespread use and acceptance of consumer credit was matched by a high level of reported satisfaction among consumers with their most recent loan transaction. Using a 5-point satisfaction scale, 74 percent said that they were very satisfied and another 17 percent reported being somewhat satisfied, while just 5 percent reported outright dissatisfaction (Table 4). Although the vast majority (91%) were satisfied with their most recent loan, this does not necessarily indicate the lack of credit problems. A series of fixed-question/free-response items were used to directly assess consumer credit problems, allowing the respondents to explain in their own words their experiences with consumer credit problems.

Several areas were selected for detailed investigation, each centered around problem areas on which recent consumer credit legislation has focused. In particular, respondents were asked to detail any unfair treatment in credit transactions they might have experienced, any recent complaints they had made about a credit problem, whether they were refused credit altogether or were unable to obtain the full amount desired, and whether any credit card bills they received during the past year contained errors. In each case, respondents were also questioned as to whether they had attempted to resolve any of these credit problems they encountered, and whether their actions led to a satisfactory outcome.

Unfair Treatment

Respondents were asked whether, in their opinion, they had ever been treated unfairly in their credit transactions. In response, 24% of all households mentioned one or more problems which they had experienced (Table 5). Among those experiencing unfair treatment, 35% mentioned being overcharged or receiving bills which contained errors; another 11% reported being unfairly dunned to pay bills. Twenty-one percent said that they were refused credit altogether, while another 18% mentioned specific personal, financial, or credit characteristics of the household as forming the basis of their unfair treatment. Approximately two-thirds of all households who experienced unfair treatment attempted to resolve the problem, with the majority (74%) taking their complaints to the creditor. Among those who attempted to correct any unfair treatment, 38% reported that the problem was corrected to their satisfaction. Achieving a satisfactory outcome was somewhat more frequent when respondents were unfairly dunned to pay bills (46%), and less frequent when the unfair treatment involved refusal of credit (26%).

Recent Complaints

When asked if they had complained to someone other than a friend or relative about some credit experience, 12% reported registering one or more complaints during the past few years (Table 6). As with unfair treatment, the majority of complaints were directed toward the creditor rather than governmental agencies, lawyers, or consumer groups. The most common complaint registered by consumers was being overcharged or having billing errors. Interestingly, a smaller proportion of all the complaints actually registered by respondents concerned credit refusal as compared with the relatively greater frequency with which this problem was mentioned as being unfairly experienced in the past. Among those who did register complaints, 40% reported that they were satisfied with the outcome -- a figure comparable to the reported frequency of satisfied outcomes to complaints made concerning unfair treatment. Satisfactory outcomes to complaints were almost as frequent (40% versus 43%) when the complaint was made to the creditor as when a lawyer or governmental agency was contacted. In addition, almost half of all complaints which involved billing errors were corrected to the respondent's satisfaction, more than twice as frequently as reported satisfactory outcomes when complaints involved credit refusal.

Credit Refusal

When asked whether they had been turned down when applying for credit or were unable to get as much credit as they wanted, 20% of all households reported that they had experienced this situation in the past

few years (Table 7). Among respondents who were refused credit or unable to obtain the desired amount, two-thirds said that the creditor cited unfavorable financial and credit characteristics of the household as the reason for their decision. In addition, 9% reported other personal characteristics of the household (for example, age, marital status, family size) as the reason given by the creditor for not being able to obtain credit. More than one-third (38%) of the households who were unable to obtain credit felt the creditors explanation was satisfactory. As might be expected, respondents more frequently found the explanations of creditors satisfactory when they involved the financial (45%) and credit (41%) characteristics, rather than when personal characteristics (27%) of the household were cited.

Credit Card Billing Errors

Nine percent of all households reported that they received credit card bills during the past year which contained errors -- 14% among credit card holders (Table 8). More than half of those who had received bills with errors reported being charged the incorrect amount, and one-third stated that a payment or refund was not correctly recorded. The majority of respondents cited errors which occurred on store charge cards and revolving accounts (59%), more than twice as many respondents as who had errors on bank (28%) or gasoline (17%) charge cards. Significantly, 88 percent of those respondents who reported credit card billing errors attempted to correct these errors, and nearly all of these complaints (90%) resulted in a satisfactory outcome.

Interest Rate Awareness

Truth-in-lending requires creditors to disclose the important terms of consumer credit contracts in clear and simple language. Has the implementation of the truth-in-lending law heightened consumers awareness of interest rates? Benchmark studies of consumer awareness of annual percentage rates were conducted by the Federal Reserve Board in 1969 and 1970. The 1977 survey replicated these measures to assess whether interest rate awareness had increased since that time. Using similar procedures in each survey, a substantial gain in awareness was documented. In 1969, just 15% of all respondents were (correctly) aware of the annual percentage interest rate charged on their installment loans (Table 9). In comparison, 55% of all respondents were correctly aware of annual percentage interest rates in 1977. Similar and substantial increases in awareness of interest rates charged on retail revolving credit accounts and bank credit cards was also evidenced. Although this represents partial evidence of the effectiveness of the Truth-in-Lending Law, it does represent encouraging evidence that consumer credit information has and can be effectively encouraged by public policy.

Summary

These data indicate that consumer credit use among American households has been maintained at a high level throughout the past decade, accompanied by an increasingly favorable attitude toward the use of installment credit. Although satisfaction with outstanding loans is widespread, a substantial number of consumer credit problems were recorded among the general population. The most significant problems mentioned include access to credit and various billing errors.

These data revealed a significant difference between the occurrence of consumer credit problems and the number of problems left unresolved (Table 10). Complaints registered by consumers to remedy credit problems they encountered proved effective in approximately one-third of the cases. Significantly, credit card billing errors were more responsive to current complaint handling procedures than problems concerning unfair treatment or credit refusal. Overall, credit card billing errors were largely resolved to the respondent's satisfaction, while the occurrence of unresolved unfair treatment remained widespread.

Among all American households, 4% reported they had been treated unfairly and had recently registered a complaint and had been limited or denied credit. This combined incidence is reduced to 1% when satisfactory outcomes to complaints were taken into account. In contrast, a majority of all respondents (62%) did not mention any of these credit problems, and 75% did not mention any unresolved problems. Whether the measured extent of consumer credit problems or the effectiveness of the complaint handling process represent an improvement over the past cannot be assessed by these data alone. Nonetheless, one household in four reported unresolved credit problems, indicating that greater attention must be given to this significant consumer problem.

TABLE 1

TRENDS IN INSTALLMENT DEBT, 1959-1977

Year	Percentage of all households with installment debt
1959	47%
1960	47
1965	49
1966	49
1967	48
1968	48
1969	51
1970	49
1977	47

TABLE 2

GENERAL ATTITUDES TOWARD INSTALLMENT DEBT[a]

Percent who view use of installment debt as:	1967	1977
Good	48	51
Pro-con	10	32
Bad	40	15
Don't know/not ascertained	2	2
Total	100%	100%

[a]The question was: "Let's begin by talking about how you feel about credit in general. Do you think it is a good idea or a bad idea for people to buy things on the installment plan?"

TABLE 3

TRENDS IN ATTITUDES TOWARD INSTALLMENT DEBT USE, 1959-1977
(Percentage of all families)

Appropriate Purposes for Borrowing	Percent Saying "Yes"			
	1959	1967	1970	1977
To cover expenses due to illness	86%	80%	85%	85%
To finance educational expenses	70	77	86	80
To finance the purchase of a car	62	65	76	84
To finance the purchase of furniture	44	52	61	60
To consolidate bills which have piled up	44	43	49	47
To cover living expenses when income is cut	26	40	43	49
To cover the expenses of a vacation	5	9	10	17
To finance the purchase of a fur coat or jewelry	2	4	4	6
To finance boats, snowmobiles and other hobby items	NA	NA	NA	23

CHART 3

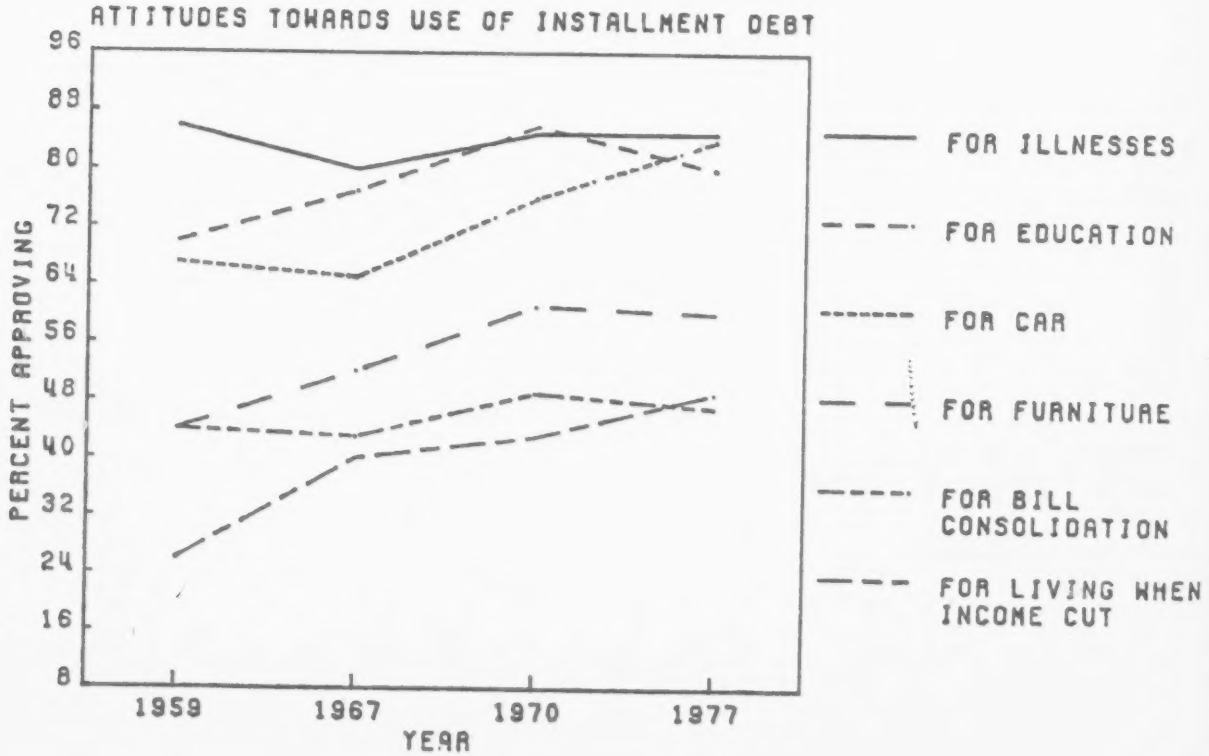

TABLE 4

LOAN SATISFACTION[a]

	Percent satisfied with most recent loan transaction over $200
Very satisfied	74%
Somewhat satisfied	17
Pro-con	1
Somewhat dissatisfied	3
Very dissatisfied	2
Don't know/not ascertained	3
Total	100%
Cases	1165

[a]The question was: "Looking at this card, overall, how satisfied are you with this loan?"

TABLE 5

PERCEIVED UNFAIR TREATMENT IN CREDIT TRANSACTIONS[b]

	All households (N=2563)	Respondents treated unfairly (N=622)	Respondents who attempted solution (N=387)	Proportion of respondents satisfied with outcome by problem solution type
Percent ever treated unfairly in credit transactions	24	-	-	-
Type of problem mentioned:[a]				
Credit refused altogether	-	21	-	26
Financial, credit, or personal characteristics of borrower	-	18	-	32
Overcharged, billing, or other credit or errors	-	35	-	30
Dunned to pay bills	-	11	-	46
Other	-	33	-	20
Attempted to solve problem:[a]	-	62	-	-
Went to creditor/credit bureau	-	-	74	34
Went to lawyer, government agency, or pressure organization	-	-	14	32
Paid off debt/went to alternative source of credit/refused to pay for item	-	-	16	44
Other action taken	-	-	4	29
Percent satisfied with outcome	-	-	38	-
Unfair treatment left unresolved to respondent's satisfaction	17	-	-	-

[a]Percentages do not add to 100 due to multiple responses.

[b]The questions were: "In your opinion, have you ever been treated unfairly in your credit transactions? What was the problem? Did you try to do anything about this? What did you do? Was the problem corrected to your satisfaction?"

TABLE 6

RECENT COMPLAINTS ABOUT CREDIT EXPERIENCES[b]

	All households (N=2563)	Respondents who complained (N=299)	Proportion of Respondents satisfied with outcome by complaint type
Percent having complained within the past few years about a credit experience	12	-	-
To whom complaint was made:[a]			
Creditor/credit bureau	-	63	40
Lawyer, government agency, or pressure organization	-	44	43
Other	-	3	11
Type of Complaint:[a]			
Credit refused altogether	-	11	22
Financial credit, or personal characteristics of borrower	-	8	39
Overcharged, billing, or other creditor errors	-	42	45
Dunned to pay bills	-	13	49
Refused refund on bad item	-	11	32
Other	-	17	48
Percent satisfied with outcome	-	40	-
Percent with complaint left unresolved to respondent's satisfaction	5	-	-

[a]Percentages do not add to 100 due to multiple responses.

[b]The questions were: "In the past few years, have you complained about some credit experience you had--say, to a lawyer, a government official, the creditor, or someone other than a friend or relative? To whom did you complain? What happened that made you complain? What was the outcome?"

TABLE 7

LIMITATION OR REFUSAL OF CREDIT[b]

	All households (N=2563)	Respondents who were refused/limited in receipt of credit (N=511)	Proportion of respondents satisfied with outcome by reason given
Percent refused credit or unable to get as much as desired	20	-	-
Reasons given by creditor:[a]			
Personal characteristics of borrower	-	9	27
Credit characteristics of borrower	-	42	41
Financial characteristics of borrower	-	27	45
Miscellaneous reasons	-	5	46
No reason given/respondent does not know	-	12	10
Percent satisfied with explanation	-	38	-
Percent unresolved credit refusals	11	-	-

[a] Percentages do not add to 100 due to multiple responses.

[b] The questions were: "In the past few years, have you ever been turned down for credit by a particular lender? Were you unable to get as much credit as you wanted from a particular lender or creditor in the past few years? What was the reason that was given? Was the explanation satisfactory?"

TABLE 8

CREDIT CARD BILLING ERRORS[b]

	All households (N=2563)	Respondents who had billing errors (N=227)	Respondents who took action by type of error	Proportion of respondents satisfied with outcome by type of error
Percent of all respondents having billing errors in the last year	9%	-	-	-
Type of billing error[a]				
Charged incorrect amount (under or over)	-	57%	88%	80%
Charged for another's purchases	-	21	96	85
Payment or refund not credited correctly	-	35	89	76
Type of credit card[a]				
Gasoline	-	17	87	76
Bank	-	28	88	80
General purpose	-	5	92	83
Store card/account	-	59	88	78
Percent of respondents who attempted to correct a billing error	-	88	-	-
Percent of respondents satisfied with outcome	-	-	90	-
Unresolved billing errors	1	-	-	-

[a]Percentages do not add to 100 due to multiple responses.

[b]The questions were: Have any of the credit card bills sent to you in the past year contained errors? What kind of error was made? On which type of card? What did you do about the error? Was the error corrected to your satisfaction?"

TABLE 9

AWARENESS OF ANNUAL INTEREST RATES, 1969-1977

(Percentage distribution among those having each type of credit)

	Aware of Interest Rates		
Type of Credit	1969	1970	1977
Closed end credit	15%	38%	55%
Retail revolving credit	35	56	65
Bank credit cards	27	63	71

TABLE 10

RESOLVED AND UNRESOLVED CONSUMER CREDIT PROBLEMS

	Percent of all Households	
Unfair Credit Treatment	24%	
Problem corrected satisfactorily		7
Unresolved unfair treatment		17
Recent Credit Complaint	12%	
Problem corrected satisfactorily		5
Unresolved credit complaint		7
Credit Refusal	20%	
Creditor explanation satisfactory		9
Creditor explanation unsatisfactory		11
Credit Card Billing Error	9%	
Error corrected satisfactorily		8
Error not corrected satisfactorily		1